Testimony of

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Before the House of Representatives Committee on Agriculture
Subcommittee on Specialty Crops and Foreign Agriculture Programs

Review of Federal Export, Trade and promotion Programs within the Trade Title of the Farm Bill

On Behalf Of

National Association of Wheat Growers
Wheat Export Trade Education Committee
U.S. Wheat Associates

June 28, 2001

Good morning Mr. Chairman and Committee members. My name is Dusty Tallman and I am a wheat producer from Brandon, Colorado and President of the National Association of Wheat Growers (NAWG). Today, I am representing the Wheat Export Trade Education Committee and U.S. Wheat Associates as well as NAWG. Additionally, the positions I present here today represent a broad consensus among farm and agriculture-related organizations that have participated in a Trade Title Working Group, Subcommittee on Export Assistance and Promotion Programs. The testimony you have before you on the trade title for the next farm bill outlines elements critical to our competitiveness in the world market.

Agricultural exports are an extremely important element of success for U.S. wheat producers. In fact, we consistently export nearly 50 percent of our total wheat production. We strongly believe that an aggressively funded trade title is imperative to the health and prosperity of the wheat industry. The U.S. must maximize the use of all available trade programs within the World Trade Organization's (WTO) limitations. This will enhance our negotiating leverage and ultimately return the cost of any program to the government by increasing marketing opportunities around the world and reducing producer reliance on government payments. We must work together to ensure a fair and open world market for our producers. This will require a full set of competitive tools -- *producers want to rely on a market dollar not a tax dollar.*

Foreign Market Development Program

The wheat industry strongly supports one of our most effective agricultural export programs, the Foreign Market Development (FMD) or Cooperator Program. The Cooperator Program is funded jointly by U.S. agricultural producers and the federal government. Many producers directly support the program through check-off funds collected at the state level, which are then allocated to U.S. trade organizations that promote the export of one or more U.S. agricultural commodities. None of these producer-supported organizations has a business interest in or receives remuneration from specific sales of agricultural commodities.

The Cooperator Program has played an important role in increasing U.S. agricultural exports from $3 billion at its inception in 1955 to a level of $53 billion in fiscal year 2000. It is one of the key building blocks of a sustainable, results-oriented U.S. agricultural export strategy. In order to secure the growth and health of the FMD program, we believe that it should be authorized at no less than $43.25 million. This reflects a funding level consistent with an inflation increase during the last ten years when the program funding remained stagnant at $33.5 million.

It is timely and appropriate at this juncture to take steps to preserve and strengthen the Foreign Market Development Program to fulfill a commitment to our producers made during the 1996 farm bill debate to enhance export market opportunities. It is a unique public/private partnership which successfully advances the export sales of U.S. producers and agricultural processors and is not limited under our WTO commitments.

Market Access Program

The wheat industry supports aggressive funding for the Market Access Program (MAP). USDA's Market Access Program is a cost-share program under which farmers and other participants contribute their own resources to be eligible. It has been and continues to be an excellent example of an effective public/private partnership that works. Since it was originally authorized, funding has been gradually reduced from a high of $200 million to its current level of $90 million – a reduction of more than 50 percent. Clearly, in the face of continued subsidized foreign competition, this needs to be reversed.

Global agricultural trade is still characterized by extensive use of export subsidies by our competition. While programs such as MAP have already been reduced in recent years, our foreign competitors have continued to heavily subsidize and aggressively promote their products in an effort to capture an increasing share of the world market at the expense of U.S. producers. A recent USDA study shows our competitors outspending the U.S. by as much as 20 to 1 on market promotion and export subsidies. Our competitors are spending over $100 million just to promote their products into the United States – more than what the U.S. currently spends under MAP to help promote exports of all American grown and produced commodities world-wide.

For these reasons, we strongly urge that funding for MAP be increased from its current maximum allowed level of $90 million to its previous level of $200 million with a floor of $90 million as part of the next farm bill. This would help send a strong message to our competitors and enhance the negotiating leverage of the U.S. throughout the current round of WTO negotiations. Again we are not limited by WTO commitments for this "green box" program.

Export Credit Guarantee Programs

USDA's export credit guarantee programs were designed to facilitate the sale of U.S. agricultural products. GSM programs have effectively assisted many countries in the purchase of U.S. wheat. The industry supports the continuation of the GSM programs. Additionally, we support revising the export credit program to better meet the needs of private sector buyers. We are interested in expanding the use of the Supplier Credit Program which the COBANK representative will cover in more detail.

Food Assistance Programs

The wheat industry supports the continued use of P.L. 480 (Food for Peace) and Section 416b (Food for Progress) as long as they do not interfere with commercial sales. Food assistance should play a significant role with respect to total U.S. foreign aid.

Export Enhancement Program (EEP)

We support the reauthorization and full funding allowable under the WTO of the Export Enhancement Program (note: the current maximum allowable under the Uruguay Round commitments would be $578 million), to enhance U.S. wheat exports and market development programs, until all export subsidies and anti-competitive practices of export state trading entities have been eliminated. EEP has not been utilized in its current form since 1995 despite continued use of export subsidization and anti-competitive activities by our competitors.

I would like to provide in greater detail how we believe the EEP program can be revitalized and put back to doing the job for which it was originally intended. Let me begin by asking you to take a look back and highlighting some of the history and successes of the program.

After the prosperity of the 1970s, U.S. agriculture entered a deep recession in the early 1980s. Among all the other signs of trouble, the slump in American grain exports loomed large: it was both cause and effect of the dire straits in which farmers found themselves.

Wheat exports, for instance, hit nearly 1.8 billion bushels in the 1981/82 marketing year (which runs from June through May). But in the following year, they fell to 1.5 billion bushels ... stagnated at 1.4 billion in each of the next two years ... and then plummeted to just over 900 million bushels in 1985/86. Meanwhile, total world trade was dropping too, but not as fast as U.S. exports - meaning other exporting countries were increasing their share of the world market at the expense of the United States. Indeed, EU wheat exports rose 25% from 1981/82 to 1985/86.

The export bust hit wheat farmers hard because they depended on overseas sales for as much as two-thirds of their annual production. The United States has the capacity to produce far more wheat than we can ever use domestically, so being able to compete in export markets is crucial to wheat producers' economic health.

It was clear, as new farm legislation was being written in 1985, that wheat exports needed a boost. And it wasn't only wheat: Total U.S. agricultural exports fell from a high of $43.8 billion in the fiscal year 1981 to $31.2 billion in fiscal 1985 and $26.3 billion in fiscal 1986. As America's overall trade deficit was rising toward $170 billion, its agricultural trade - one of the few areas to show a consistent surplus in recent years - was falling fast.

Something had to be done - and several things were done. The 1985 farm law made dramatic changes in price support policies for wheat and other major commodities, with the aim of ensuring price-competitiveness. Meanwhile, economic policymakers began acting to bring the dollar down to a more reasonable level against other major currencies: the U.S. currency's high value had made American farm goods more expensive for foreign buyers (similar to one of the problems facing U.S. exports today).

But there was a broad consensus that this wasn't enough. In addition to all the other factors that had caused America's exports to slump, this nation's farmers were facing subsidized, unfair competition from all over the globe. For example, the EU's agricultural policies were paying producers high prices for unlimited output with surpluses as the predictable result. Those surpluses were then dumped into world markets. For 1987/88, the EU wheat support price was equivalent to about $6.50 per bushel, while world prices during most of the year were less than $3.00 per bushel. The big difference between the two numbers was made up by an EU export subsidy - which explains both why the EU was able to export wheat, and why it has chronic budget problems.

Wheat producers often pointed out, too, that it wasn't only the EU that played by different rules. Major grain exporters like Canada and Australia sold their wheat through quasi-government marketing boards - bodies with monopoly power over exports, and consequently with a sizable amount of government-sponsored market muscle.

The U.S. had been putting pressure on the Europeans and others to stop export subsidies for several years.

Quiet diplomacy had been tried, and hadn't worked. There was in 1985, a fairly broad consensus that it was time to fight fire with fire. It was time for the U.S. to do whatever it took to regain lost market share and increase exports.

The result was the Export Enhancement Program. It was, from the first, a bipartisan effort. It was created by the Administration in June 1985 in consultation with Congress and the private sector. Later that year, Congress gave it a firm legislative footing by mandating an aggressive continuation of EEP in its omnibus farm bill. Authority to operate the program also exists under a longstanding statute, the Commodity Credit Corporation Charter Act.

EEP has never been an across-the-board export subsidy. Instead, the U.S. Department of Agriculture selects specific countries, commodities and sales volumes. The targeted approach has been used because, in addition to its main aim of raising U.S. export volumes, EEP was designed to challenge unfair trade practices by particular countries in particular markets. It also seeks to encourage - indeed, pressure - countries to negotiate reforms in international agricultural practices. On this last front, it has had notable success: agricultural trade was the centerpiece of the negotiations by the member nations of the General Agreement on Tariffs and Trade (GATT) in Geneva. Though the major farm exporting countries held widely different views of what the talks' outcome should have been, it can be argued that there would have been no talks without the powerful incentive EEP provided.

EEP hasn't been just a wheat program. Among the other commodities whose sales have increased through the program are grain sorghum, rice, poultry and poultry feed, barley and barley malt, eggs, soybean and other vegetable oils, and dairy cattle.

When USDA was actually administering the program, which they basically refuse to do today, USDA selected both countries and commodities. In selecting countries, USDA picked markets where the U.S. faced subsidized competition from other suppliers, mostly the EU. All U.S. commodities were eligible for EEP as long as they met the program's criteria - that is, the EEP must raise sales above the level they would otherwise have reached (additionality); the program must challenge only competitors who subsidize their exports (targeting); overall U.S. economic growth has to increase through the program (cost effectiveness); and federal budget outlays should be no greater than they would have been without the program (budget neutrality).

From the beginning of the program in 1985, results were impressive:

- Well over a billion bushels of U.S. wheat had been shipped overseas.
- Of the top ten markets for U.S. wheat in 1987/88, eight made purchases under EEP.
- The U.S. share of world markets rose from 29% in 1985/86 to 31% in 1986/87 and 42% in 1987/88.
- Total 1987/88 U.S. wheat exports were up 60% over 1986/87 levels. The increase primarily reflected large purchases by the Soviet Union and China, both of which bought wheat under EEP.

EEP served, and through active use would continue to serve two essential functions:

1. Help spur an increase in U.S. exports. That in turn means higher farm incomes, more U.S. economic growth, and a positive contribution to the U.S. balance of trade.
2. Help bring our foreign competitors to the bargaining table. Already, agricultural negotiations are underway in Geneva, aimed at solving many of the problems that made EEP necessary several years ago.

For both of these reasons it is vital that EEP be maintained. Since the predatory trade practices of the EU and the Canadian Wheat Board have not come to a halt, we still need EEP in order to remain competitive. And since WTO trade talks are once again in progress, we still need EEP as leverage - to convince other countries to agree to real reforms and that the United States government is serious about addressing and removing trade distortions.

Indeed, the most sensitive stage of the WTO agricultural negotiations is just ahead. This <u>would be the worst possible time to back down on the EEP</u> - it would fly in the face of U.S. foreign policy, trade policy and our manifest economic interest. Now is the time to strongly re-endorse this program and send a clear signal to our subsidized and monopoly trading competition that the U.S. is up to maintaining a tough trade policy over the long haul.

Some business trade groups, our competitors and many in USDA have not only worked to stop the program but continue to criticize EEP as unfair and want to see it completely eliminated, saying it gives foreign customers a better deal than U.S. buyers. This criticism shows a misunderstanding of the purpose EEP is meant to perform. It's aimed only at those foreign markets where U.S. goods have been disadvantaged by unfair competitive practices.

To back down on EEP now would be the height of folly. It would send precisely the wrong signal to our foreign competitors. I would like to propose that the government's unwillingness to maintain an active use of EEP has shifted our competitors' focus to destroying our export credit programs and criticizing our food aid programs. While they still hate EEP they have been forced to look for other programs to criticize and in so doing take the focus off of their own trade distorting practices such as export subsidies and monopolistic trading.

It is time to reverse the players in this game. We need to take charge of the trade debate, say that our farmers are important and that we are going to do everything legal under our Uruguay commitments to ensure that our producers have a fair share of the export market. The wheat industry and many others here today urge you to include full funding for EEP allowable under our Uruguay Round commitments in the trade title of the new farm bill.

Do not let the Office of Management and Budget and internal agency politics dictate what tools you can make available to strengthen market development as well as helping our negotiators stack the deck in our favor at the negotiating table.

We strongly recommend that the Department de-link the trade policy considerations associated with EEP and reconstitute it as a flexible, commercial program designed to enhance U.S. farm export competitiveness. The U.S. Department of Agriculture should also be obligated to meet its annual funding levels and volume level commitments agreed to in the Uruguay Round of GATT. If these levels are not met by the end of the sixth month of each fiscal year the amount of GATT legal funds that remain unspent on EEP activities must be expended within the fiscal year on market creating and promotion, Green Box programs. At least one/ fifth of these funds must be spent on market development and export promotion programs for wheat and the remainder must be made available by the Secretary to all agricultural products and commodities for Green Box market expansion activities.

Putting this money each year into market building programs for the next several years should send a very clear message to our competitors and will show your strong commitment to producers across the nation. Efforts of this type are needed to put the United States at the head of the table in negotiations aimed at removing market barriers around the world. We urge you to give us all the allowed tools, including the maximum dollar amount allowed under the EEP to be competitive in the world market.

Over the years USDA has borrowed from Peter to pay Paul and by doing so has removed the clout the EEP program was designed to have over trade distorting practices of our competitors. This must be stopped. For example:

> The 1996 Farm Bill authorized maximum funding levels for EEP through FY2002 as follows: $350 million for FY96; $250 million for FY97; $500 million for FY98; $550 million for FY99; $570 million for FY00; and $478 million in each of FY01 and FY02. Note that the authorizations for the early years are lower than the maximum value levels allowed by the Uruguay Round Agreement on Agriculture.
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> The 1996 Farm Bill cut EEP in the near years to provide money for the contract payments. In the out years – those leading up to the next round of multilateral trade negotiations – the authorizers in Congress authorized the use of EEP at levels of $550 million in fiscal year 1999; $579 million in fiscal year 2000; and $478 million in fiscal years 2001 and 2002. These figures were consistent with U.S. commitments on the reduction of export subsidies contained in the Uruguay Round Agreement on Agriculture but continued to reduce the leverage on competition.
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> Congressional appropriators have used the lapse in the operation of the EEP program to find "savings" to fund other programs. In 1999 the Department of Agriculture beat the appropriators at their own game by proposing a cut in the EEP to fund crop insurance from fiscal year 1999-2003. Earlier USDA had recommended an EEP program funded at $500 million (as authorized in the farm bill) and the appropriators cut it to $150 million to fund a crop insurance shortfall for one year. For FY99, the Department proposed to increase the funding for EEP from $150 million to $320 million and to resume the program "should global market conditions warrant." This "increase" for fiscal year 1999 was really a cut from the authorized level of $550 million.
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> Adding insult to injury, the Department proposed to make EEP a more flexible, multi-year program. Under that proposal, a total funding level of less than $1.2 billion would have been made available to the Department for EEP during the 1999 to 2003 period. According to the budget summary issued by USDA, the proposal would provide administrative discretion to the Department to determine the annual level of funding for EEP (subject to the $320 million limitation in 1999). And any funding that was not used in one year would remain available for use in a subsequent year subject to the Uruguay Round agreement commitments. USDA estimated that cutting EEP from a multiyear funding level of $2.1 billion to $1.2 billion saved $1.4 billion for use in other mandatory spending proposals.

The wheat industry strongly objects to this kind of fiscal jerry-rigging when we are losing export opportunities.

We would oppose any attempt to use unspent EEP funds to make up for short falls in any other program, including the existing market development- cooperator program and the Market Access Program. These programs must be funded at the levels mentioned earlier and all unspent EEP monies

There are some additional issues the U.S. wheat industry believes cannot wait for the next farm bill that I wish to bring to your attention. They are part of a complete package that the U.S. needs in its "toolbox" if we are to remain competitive.

Presidential Trade Promotion Authority

The wheat industry believes that Congress should grant trade promotion authority to the President that is unencumbered by environmental or labor provisions this year.

Unilateral Trade Sanctions

We recognize that significant work was done last year to reform U.S. sanctions policy. However, the industry supports continued efforts to ease access to formally sanctioned markets by eliminating licensing requirements, allow access to export credit programs for all countries without a presidential waiver and rescind the travel restrictions and the prohibition on commercial financing for Cuba.

Thank you for your attention to wheat's proposals for the new trade title. The wheat industry will continue to work on expanding effectiveness of the trade title in an effort to aggressively promote U.S. wheat exports. We look forward to working with the Committee further on discussions of the trade title.